7.01 Property, Plant & Equipment: Fixed Assets

Property, Plant and Equipment (PP&E) are tangible assets acquired for long-term use in the normal course of business. They are not for resale and are generally subject to depreciation. (ASC 360)

Asset	X	
Cash		X

Acquisition Costs (Intended Use)

Acquisition costs, which are capitalized as part of the cost of the asset, include not only the purchase price of the asset, but also costs associated with obtaining it and preparing the asset for its intended use.

- Include all costs of acquisition or construction as well as preparation for use.
  - Purchase price
  - Legal fees
  - Delinquent taxes
  - Title insurance
  - Transportation (freight in)
  - Installation
  - Test runs
  - Sales taxes

The **cost of land** includes:

- Purchase price (including any existing building that is to be demolished)
- Surveying
- Clearing, grading, and landscaping
- Costs of razing or demolishing an old building are added to the land cost.
- Proceeds from the sale of any scrap (old bricks) are subtracted from the land cost.

For example, assume that a piece of land with an existing building on it is acquired, with the following facts applying:

Purchase Price	$300,000
Cost of razing old building	50,000
Sale of scrap from clearing old building	8,000

The cost of the land is $300,000 + $50,000 - $8,000 = $342,000. Notice that nothing is allocated to the old building, since it is being demolished. No benefits are being derived from the old building, so the matching principle indicates that none of the costs should be allocated to it.

Lump-Sum Purchases

If land and a building are acquired for a lump sum, use the **relative fair value method** to allocate the value between the assets.

For example, if property is acquired for $600,000, and the only available information to allocate is the tax appraisal, which allocates $100,000 to the land and $400,000 to the building, for a total of $500,000 tax value, then the cost of the property will be allocated 100,000 / 500,000, or 20%, to land, and 400,000 / 500,000, or 80%, to building. The entry to record acquisition of the property is:

Land	120,000	
Building	480,000	
Cash		600,000

If land is acquired along with a depleting asset, such as oil in the ground, then the land is normally allocated its estimated residual value assuming all oil had been removed, and the remainder is allocated to the oil itself. One complication, however, is that the cost of the property includes all costs of acquisition and preparation of the property for drilling, as well as any estimated restoration costs for the property following the completion of drilling.